

Message Text

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ACTION EUR-12

INFO OCT-01 ISO-00 L-03 FBO-02 EB-07 TRSE-00 SAJ-01 EURE-00

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P 231211Z JUL 76

FM AMEMBASSY BUDAPEST

TO SECSTATE WASHDC PRIORITY 6504

C O N F I D E N T I A L BUDAPEST 2484

E.O. 11652: GDS

TAGS: EFIN, HU

SUBJ: WORLD WAR I FLOUR DEBT AND SURPLUS PROPERTY CLAIMS

REF: STATE 179919

1. EMBASSY MOST GRATEFUL FOR RESPONSE RPROVIDED REFTEL.

2. AT CHARGE'S DINNER FOR DEPUTY TREASURY SECRETARY JONES JULY 19 GOH MINFIN DIRECTOR OF INTERNATIONAL OPERATIONS LASZLO AKAR INFORMED ECONOFF THAT HUNGARY REALIZES IT MUST PAY WORLD WAR I DEBT ARREARAGES IN FULL. HOWEVER, GOH QTE AS FACE-SAVING DEVICE UNQTE WILL ASK THAT IT BE ALLOWED TO MAKE PAYMENTS OVER A PERIOD OF YEARS (AKAR MENTIONED TEN YEARS).

3. AT THE SAME TIME IT IS APPARENT THAT GOH WISHES RESTRICTIONS OF JOHNSON ACT LIFTED SIMULTANEOUSLY WITH AGREEMENT TO PAY WORLD WAR I DEBT ARREARAGES. REFTEL STATES RESTRICTIONS WILL BE REMOVED ONLY AFTER COMPLETE PAYMENT. THIS DIFFERENCE, WHICH EMBASSY NOTED IN BUDAPEST 1406, IS MAJOR. FROM EMBASSY READING OF JOHNSON ACT AND 1924 HUNGARIAN DEBT FUNDING AGREEMENT IT APPEARS THAT GOH MUST PAY TOTAL ARREARAGES ACCUMULATED TO PRESENT TIME IN ORDER TO AVOID BEING IN DEFAULT. APPARENTLY CONGRESSIONAL APPROVAL WOULD BE REQUIRED, AS IT WAS FOR 1924 FUNDING AGREEMENT, BEFORE ORIGINAL 1924 SCHEDULE OF PAYMENTS COULD BE ALTERED.

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4. PROPOSED USG NOTE TRANSMITTED REFTEL STATES THAT QTE THE SCHEDULE OF REPAYMENT OF INSTALLMENTS DUE FROM THE P QSENT TO 1985 UNQTE IS SUBJECT TO DISCUSSION. EMBASSY ASSUMES THAT THIS REFERS TO ORIGINAL SCHEDULE OF PAYMENTS GIVEN IN 1924 ARRANGEMENT.

5. IF THIS IS CORRECT, PROPOSED NOTE IMPLIES THAT USG HAS THE FLEXIBILITY TO ALTER ORIGINAL 1924 PAYMENTS SCHEDULE (OR AT LEAST THAT PROTION OF IT DATING FROM 1976 TO 1985) WITHOUT CONGRESSIONAL APPROVAL. IF THIS IS INDEED TRUE, QUESTION ARISES: WHY DOES USG NOT HAVE FLEXIBILITY TO ALTER SCHEDULE OF PAYMENTS DUE FROM LATE 1930'S, WHEN PAYMENTS STOPPED, TO 1976?

6. IF USG HAS FLEXIBILITY TO PERMIT LIFTING OF RESTRICTIONS OF JOHNSON ACT SIMULTANEOUSLY WITH SIGNING OF AGREEMENT BY HUNGARIANS TO PAY PAST ARREARAGES EMBASSY BELIEVES MATTER COULD BE BROUGHT TO REPID AND SUCCESSFUL CONCLUSION. IT APPEARS TO EMBASSY, HOWEVER, THAT USG DOES NOT HAVE THIS FLEXIBILITY. BUT IF IT DOES NOT, THEN INCLUSION IN USG NOTE OF WORDING WHICH STATES THAT SCHEDULE OF PAYMENTS NOT YET DUE (FROM 1976 TO 1985) IS SUBJECT TO DISCUSSION CONFUSES ISSUE AND APPEARS LOGICALLY INCONSISTENT.

7. WE NEED TO RESOLVE THIS APPARENT INCONSISTENCY -- AT LEAST IN OUR OWN MINDS -- BEFORE EMBASSY PRESENTS DIPLOMATIC NOTE. EMBASSY RECOMMENDS THAT PHRASE QTE THE SCHEDULE OF REPAYMENT OF INSTALLMENTS DUE FROM THE PRESENT TO 1985 UNQTE BE DELETED FROM USG NOTE. IF THIS WORDING IS REQUIRED PLEASE PROVIDE EXPLANATION FOR APPARENT INCOSISTENCY OUTLINED IN PRE-CEEDING PARAS. MUDD

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Message Attributes

Automatic Decaptioning: X
Capture Date: 01 JAN 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: DEBT REPAYMENTS, WAR DEBTS, WORLD WAR I, PROPERTY WAR CLAIMS, NEGOTIATIONS, FLOUR
Control Number: n/a
Copy: SINGLE
Draft Date: 23 JUL 1976
Decaption Date: 01 JAN 1960
Decaption Note:
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Authority: MartinML
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 28 MAY 2004
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1976BUDAPE02484
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: GS
Errors: N/A
Film Number: D760284-0364
From: BUDAPEST
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1976/newtext/t19760730/aaaaazki.tel
Line Count: 97
Locator: TEXT ON-LINE, ON MICROFILM
Office: ACTION EUR
Original Classification: CONFIDENTIAL
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 2
Previous Channel Indicators: n/a
Previous Classification: CONFIDENTIAL
Previous Handling Restrictions: n/a
Reference: 76 STATE 179919
Review Action: RELEASED, APPROVED
Review Authority: MartinML
Review Comment: n/a
Review Content Flags:
Review Date: 29 APR 2004
Review Event:
Review Exemptions: n/a
Review History: RELEASED <29 APR 2004 by hartledg>; APPROVED <18 AUG 2004 by MartinML>
Review Markings:

Margaret P. Grafeld
Declassified/Released
US Department of State
EO Systematic Review
04 MAY 2006

Review Media Identifier:
Review Referrals: n/a
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
Secure: OPEN
Status: NATIVE
Subject: WORLD WAR I FLOUR DEBT AND SURPLUS PROPERTY CLAIMS
TAGS: EFIN, HU, US
To: STATE
Type: TE
Markings: Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 04 MAY 2006